EARNINGS MANAGEMENT:
A LITERATURE REVIEW

By:

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232013509

THESIS

Submitted to the Faculty of Economics and Business
To meet some of Requirements for Achieving
A Bachelor of Economics

FACULTY: ECONOMICS AND BUSINESS
MAJOR: ACCOUNTING (ICMAP)

FACULTY OF ECONOMICS AND BUSINESS

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SALATIGA

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MOTTO

"You must be the change you wish to see in the world."

-Gandhi-

"You must 100 percent of the shots you never take."

-Wayne Gretzky-

"I'd rather live with a good question than a bad answer."

-Frank Sinatra-

"You will never regret anything you decide."

-Silvi Febryan Susanto Putri-

PREFACE

The title of this thesis is **"EARNINGS MANAGEMENT:A LITERATURE REVIEW"** to fulfill some part of the requirements for achieving the Bachelor of Economics in the Universitas Kristen Satya Wacana Salatiga.

This thesis aimed to explore and discuss literature on earnings management based on the previous studies. This study was a literature study which aimed to obtain an understanding on the concept of earnings management for the accounting body of research. Moreover, this study is expected to have a contribution from any related parties. For the practical benefit, this research prospected as a reference for people to know about earnings management. For thetheoretical benefit, this research is prospected as a contribution to science and as a reference for the next study with a similar topic in the future.

The author realizes that this thesis has many inadequacy and limitations. Therefore, the author expects suggestions and criticisms that can build in order to improve this thesis. To all those who have helped in writing this thesis, the end of the author says thank you and may God bless us all.

Salatiga, April 25, 2017

The author

Abstract

This study aims to provide a map of variables related earnings management as an dependent variable and an independent variable based on previous study to give consistency on the earnings management research. This study utilized purposive sampling method during the 1992 – 2013 period on Google Scholar, followed by a review of 30 previous studies concerning earnings management. There are 20 previous studies were considered earnings management as an afected variable. There are three categories in accounting theory which is believed to influence earnings management related to Positive Accounting Theory (PAT), corporate governance, accounting standards. Based on the discussion, when earnings management was considered as dependent variable, most of the previous study relating with variable that arises due to corporate governance. There are 10 previous studies were considered earnings management as an affecting variable. There are four categories in accounting theory which is believed to be influenced by earnings management related to Positive Accounting Theory (PAT), financial activity, firm performance and corporate governance. Then when earnings management was considered as an independent variable, most of the previous study relating variable that arise due to financial indicator measurement in firm performance. In general, this study concluded that earnings management which considered as a dependent variable or an independent, both of side, must be relationship with variable that arises due to corporate governance and Positive Accounting Theory (PAT).

Keywords : earnings management,literature review

Saripati

Penelitian ini bertujuan untuk memberikan peta variabel terkait manajemen laba sebagai variabel dependen dan variabel independen berdasarkan penelitian terdahulu untuk memberikan konsistensi pada penelitian manajemen laba. Penelitian ini menggunakan metode purposive sampling selama periode 1992 - 2013 di Google Scholar, dilanjutkan dengan peninjauan 30 studi sebelumnya mengenai manajemen laba. Ada 20 penelitian sebelumnya yang menganggap manajemen laba sebagai variabel yang terpengaruh. Ada tiga kategori dalam teori akuntansi yang diyakini mempengaruhi manajemen laba terkait dengan Positive Accounting Theory (PAT), corporate governance, standar akuntansi. Berdasarkan pembahasan, ketika manajemen laba dianggap sebagai variabel dependen, sebagian besar penelitian terdahulu berkaitan dengan variabel yang timbul karena tata kelola perusahaan. Ada 10 penelitian sebelumnya yang dianggap manajemen laba sebagai variabel yang mempengaruhi. Ada empat kategori dalam teori akuntansi yang diyakini dipengaruhi oleh manajemen laba terkait dengan Teori Akuntansi Positif (PAT), aktivitas keuangan, kinerja perusahaan dan tata kelola perusahaan. Kemudian ketika manajemen laba dianggap sebagai variabel independen, sebagian besar penelitian terdahulu menhubungkan variabel yang timbul karena pengukuran indikator keuangan pada kinerja perusahaan. Secara umum, penelitian ini menyimpulkan bahwa manajemen laba yang dianggap sebagai variabel dependen atau independen, keduanya, pasti memiliki hubungan dengan variabel yang timbul karena tata kelola perusahaan dan Teori Akuntansi Positif (PAT).

Keywords : earnings management,literature review

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Praise the Lord I have given His grace, strength, patience, and spirit. Therefore, the author can finish the thesis entitled **“EARNINGS MANAGEMENT: A LITERATURE REVIEW”** as one of the requirements for achieving a Bachelor of Economics.

In the process of preparing this thesis, the author faced various obstacles or constraints. But the author gets support and assistance from different parties. Therefore, in this occasion, the author would like to express her gratitude to:

1. Both of my parents K.Susanto and Sumarsih, also my little sister Lidya Januar Susanto Putri and my little brother Donny Kurniawan Susanto Putra who have given every prayer, guidance, and support to the author.
2. Mrs. Arthik Davianti, S.E., M.Si.,Akt. as my supervisor who has given the time and patiently provided advice, direction, and support in writing this thesis.
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May God always bless and gives His grace to all parties and their families who have helped the author in completing this thesis. The author realizes that this

paper is far from perfection, so the author expects constructive suggestions and criticism to improve this thesis, therefore,it can be useful for every reader and further research.

Salatiga, April 25, 2017

The author

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INTRODUCTION

Nowadays, in making investment decisions, investors need companies' information in the form of financial statement as a tool to determine the performance of companies over a given period. Information presented in financial statements includes the statement of financial position, the statement changes in equity, the cash flow and the notes to financial statements (Fairfield, 1996). Although all of the information on the financial statements are important, users generally use profit as a parameter to measure the company performance. In this situation, management of a company knows the importance of profit to influence investors' decisions. Therefore, the possibility that management might take a dysfunctional behavior actions, such as earnings management, could raise concern. Earnings management is a condition when managers use their interventions in preparing financial statements such as flatten, raise and lower earnings (Schipper,1989). According to Healy and Wahlen (1999), they viewed that earnings management happen when management uses certain decisions in preparing and reporting financial statements by changing the transaction. It is intended to mislead the stakeholders about the company economic condition. Furthermore, it will affect the contractual control of the reported accounting figures, and it will be advantageous for the management on the investor decision.

According to Scott (1997) earnings management includes two parts: earnings management as amanager opportunistic behavior to maximize his utility on the compensation contracts, debt contracts and political cost (opportunistic earnings management) and earnings management was viewed as a perspective of efficient contracting (efficient earnings management) that gives manager flexibility in protecting the company. Based on these two perspectives, it can be concluded that earnings management does not always contain the downside because it is legal by the accounting standard and make benefit for the company to protect themselves during a given period. The scandal of earnings management mostly is about accounting financial reporting by corporations such as Enron,Merck,WorldCom and other enterprises in the Unites Stated (Cornett,2006). Indonesia ranks 15 out of 31 countries during the1990-1999 period based on International comparative research on earnings management (Leuz et al. 2003). Those study explained that

Indonesia was on the average rate of earnings management practices. In Indonesia, earnings management practices occurred in some companies such as PTLippo Tbk by manipulating financial reporting and PT Kimia Farma Tbk by presenting overstated net income over Rp.28,870 billion. The previous study associated earnings management with some variable such as corporate governancethat will affect earnings management in the banking sector (Nasution and Setiawan,2007), then another research associate managerial ownership, company size and corporate governance with earnings management practices (Anggareni 2013). The previous research also discussed earnings management to be associated with political cost, debt contract amd firm performance. It can be concluded that earnings management was interesting to study cause this behaviour has effect to another variable or this behaviour was arise due anoter variable. Furthermore, as we know based on previous study that earnings managementis related with some of the variables, and it is interesting to learn the diversity of the previous study to improve the understanding of earnings management. This study aims to provide a map of variables related earning management as an dependent variable and an independent variable based on previous study to give consistency on the earnings management researc. This study contribute to improve the understanding of earnings management for accounting scholar. This study compares previous studies on earnings management using purposive sampling method.

LITERATURE REVIEW

A. Definition of Earnings Management

According to the Healy & Wahlen (1999) revealed that the managers use their judgment in reporting and structuring the financial transaction to adjust and mislead the users. This action is defined as earnings management behavior in purpose to deceive a stakeholder about their company economic performance. By doing distortion of company financial reporting, themanager actually wants to fool the investor about their performance. As a result, lower earnings management describes thehigher quality of financial reporting and agreater level of earnings management describes thelower quality of financial reporting. According to Cornet et al. (2008), earnings management is defined as an anticipation step to face a loan agreement, reduce the regulatory cost and increasing the regulatory benefit on financial reporting. It simply explains that manager who did earnings management tend to obtaina benefit for themselves. Schipper (1989) revealed earnings management as a distortion action in the sense ofsecuring some private gain. In contrast, Fischer (1994) stated that earnings management includes of manager actions are intended to increase or decrease current reported earnings, and they do not have responsible for generating a corresponding increase or decrease in the long-term economic profitability of the company. Briefly summarized, it can be concluded that earnings management is included in one of the factors that can reduce the credibility of the financial statements and may interfere the users to believe these numbers are real results.

B. Earnings Management Approach

An extensive literature identifies earnings management approach through discretionary accruals and hypothesized explanatory accruals based on the relation between total accruals and hypothesized explanatory accruals. McNichols(2000) revealed that there are three approaches that can be used to measure earnings management; (1) based on the continuous from accrual specific model done by Healy (1985), Jones model and modified Jones, (2) based on the continuous from accruals specific model done by Beneish (1997) and Skinner (1999), and (3) based on frequency, the focus was on the behavior of profit associated with specific benchmarks which earnings management practices can be seen from the number of companies reporting earnings frequencies above or below the benchmark (Myers and Skinner 1999).

C. Measurement of Earnings Management

Earnings management practices can be detected by measuring total accruals. Total accruals are the differences between earnings and cash flow from the operation activity. Accrual is the main component to form the profit an arranged accruals by the estimation or judgment. Richardson (2006) found that accruals are related to earnings manipulation, practices can be detected by the measurement of total accruals, which differentiate between profit and cash flows from operating activities. Accrual changes the occurrence to be regarded as abnormal. This change is the result of excessive use of discretion policy used by management. In the same time, management also has an incentive/motive to manipulate earnings accrual then the changes is considered as a form of earnings manipulation by management.

Normal or Non-discretionary Accruals

According to Wijaya and Martani (2011), accruals are naturally present in the process of preparing the financial statements, which includes normal and nondiscretionary accruals.The normal accruals arepreordained to capture adjustments that reflect basic performance. Nondiscretionary accruals are components that happen along with the changes of the company activities. Jones model (1991), modified by Guenther (1994) assumed that during the absence of earnings management, accruals nondiscretionary was a function of the sales changes.

Abnormal or Discretionary accruals

Discretionary accruals are derived from the accrual component of earnings management. Discretionary accruals could not be observed directly from the financial statements, so it needs to be estimated through be some models. When a model forms expectations on the level of non-discretionary accruals and the sum of the deviations observed in actual, it is assumed as accrual non-discretionary. Therefore, it is viewed as accrued through the model used. The discretionary accrual calculation is done by applying Jones model (1991), which has been modified by Guenther (1994).

D. Aspect on Earnings Management

The purpose of earnings management practices is to gain benefit for a company. Earnings management is also an anticipatory step to avoid a situation such as a loan agreement, reducing the regulatory cost, and increasing the regulatory benefit (Cornett et al., 2008). The benefit is associated with the management's efforts in regulating certain incomes or profits for certain purposes that are directly or indirectly related to the company's profit. According to the Schipper (1989), earnings management is the disclosure of management intervention to obtain some private gain. Similarly, Ayres (1994) suggested that earnings management is an intentional structuring reportingto alter reported income that would not occur unless management was concerned with the financial reporting implications. Accordingly, it can be concluded that earnings management has two interrelated aspects. First, it misplaces company's possible resources to lead extra costs for the company. Second, earnings management can become a positive factor when the management is able to utilize it for the company's benefit. Response and Fischer (1994) stated that earnings management consists of theintended manager action to increase (decrease) current reported earnings of the unit for which the manager is responsible without generating a corresponding increase (decrease) in the long-term economic profitability of the unit.

RESEARCH METHOD

A. Data

This study is prepared using literature study approach, which means the data is from the publication of previous studies. The Information obtained, compared, either contradictory or mutually reinforcing was discussed critically according to the level of the understanding. The purpose of this qualitative study was to find out the empirical reality about the concept of earnings management behind the phenomenon in depth, detailed and complete.Sekaran (2006) suggested that a study needs the minimum sample to consist of 30 samples. Thereby, in this study, the samples consist of 30 previous studies used earnings management as one of the dependent or independent variable. This study focused on previous research with thestudy presented in english language. The process for selecting the study is based on the subjectivity of study that can be accessed openly on Google Scholar. However, local Indonesian context would also be included when it was recognized as an english language. The sample will be taken studies published on Google Scholar during 1991 – 2013 period. This period is particularly based on the most available studies about earnings management during 1991-2013 in Google Scholar, that is considered not only to capture along financial crisis period, but also there were so many studies investigated about earnings management during that time. This study uses the non-probability sampling technique and purposive sampling method to meet the following criteria: (1) The study taken as thesample has earnings management as one of the dependent or an independent variable. (2) The study taken as sample need to be in English langauge study published in Google scholar.

B. Analysis

Data analysis is the step of systematically looking for and organizing data obtained from field notes, and other materials (Sekaran, 2006). The analysis of the data was based on the following steps below:

1. Collecting research samples uses earnings management as a keyword on Google Scholar during the 1993-2013 period.
2. Eliminating samples, using purposive sampling method. The samples meet the following criteria: (1) the study needs to consider earnings management as one of the dependent or independent variable. (2) The study needs to be in aprevious study published in Google Scholar inthe English language during the 1993-2013 period.
3. Make a table to gain information about the main point of each study. (Title, Author, Purpose , Published year, Sourced/Origin Country, Independent Variable, Dependent Variable, Sample, Method ,Findings, Keyword)
4. Differentiating the sample based on the two categories, which considering earnings management as a dependent variable or an independent variable.
5. Reading the study to get themain point in several ways: (1) Firstly, reading the whole of the study to know about the study purposes and position of earnings management as a variable inthe study. (2) Secondly, understanding the used method on the study. (3) Lastly, making theconclusion of each study.
6. Develop a table to plot related variable on a study.
7. Grouping variables in several categories
8. Drawing the conceptual framework for earnings management as a dependent variable and as an independent variable.
9. Discussing the results based on the classification.

FINDINGS

This study aims to providing a map of variables related earning management as an dependent variable and an independent variable based on previous study to give consistency on the earnings management research. This study contributes to improve the understanding of earnings management for accounting scholar. A study usually has two variable or more to be associated, the one is a dependent variable or affected variable and an independent variable or affecting variable.In this study, earnings management were classified based on the two types, earnings management which considered as a dependent variableand as an independent variable to determine what variables related to this study. After exploring the variables that associated with earnings management in studies, then the variables are grouped into several categories accounting theories. Earnings management were considered as a dependent variable when this behaviour arise due other variable, in another words the existence of earnings management is caused by another variable. Then earnings management were considered as an independent variable when it has an effect to another variable, so this behaviour affect another variable. Then this discussion will present when earnings management as a dependent variable or an independent variable, there are some variable to be related to affect or affected. The discussion presented findings and provide facts related to earnings management as a variable in an empirical study.

Table 1. Summary of Studies

No	Author	Year	Dependent Variable	Independent Variable
1.	Key	1997	Earnings management	Political cost incentives
2.	Pourciau	1992	Earnings management	Nonroutine executive changes
3.	Chtourou, Bedard, and Courteau	2001	Earnings management	Corporate Governance
4.	Klein	2002	Earnings management	Audit committee and board of director characteristics
5.	Peasnell, Pope and Young	2000	Earnings management	Board Effectiveness
6.	Cornett, McNutt and Thehranian	2009	Earnings management	Corporate governance
7.	Nugroho and Eko	2010	Earnings management	Board characteristics
8.	Murhadi	2009	Earnings management	Good Corporate Governance

Table 1. (continue)

9.	Carcello, Hollingsworth and Klein	2006	Earnings management	Audit Committee Financial Expertise, Competing Corporate Governance Mechanisms

10.	Alzoubi and Selamat	2012	Earnings management	The Effectiveness of Corporate Governance Mechanisms
11.	Liu and Lul	2007	Earnings management	Corporate Governance
12.	Swastika	2013	Earnings management	Corporate Governance, Firm Size,
13.	Shen, and Chih	2007	Earnings management	Corporate Governance
14.	Cornetta, Marcusb, and Tehraninanb	2007	Earnings management	Corporate governance and pay-for-performance
15.	Ghoncharov and Zimmermann	2009	Earnings management	Accounting Standards
16.	Jeanjean and Stowlowy	2008	Earnings management	The mandatory introduction of IFRS standards
17.	Chai, Rahman and Courtenay	2008	Earnings management	IFRS Enforcement
18.	Patricia, Sloan, and Sweeney	1995	Earnings management	Models for detecting earnings management
19.	McNichols	1991	Earnings management	Research design issues
20.	Teoh, Welch, and Wong	1997	Earnings management	The underperformance of seasoned equity offerings
21.	Bergstressera and Phillopon	2004	CEO incentives	Earnings management
22.	Perrya and Williams	1984	Management buyout offers	Earnings management
23.	Haider	2002	Dividend Policy	Earnings management
24.	Cohen and Zarowin	1979	Seasoned equity offerings	Earnings management
25.	Roychowdhury	2006	Real activities manipulation	Earnings management
26.	Gill, Biger, and Mathur	2013	Return on Assets (Firm Performance)	Earnings management
27.	Gunny	2005	Future operating performance	Earnings management
28.	Burgstahler and Dichev	1997	Earnings decreases and losses	Earnings management
29.	Kazmik	1996	Voluntary Disclosure	Earnings management
30.	Leuz, Nanda, and Wyscoki	2003	Investor protection	Earnings management

Source: Google Scholar

A. Earnings Management Was Considered as A Dependent Variable

This section discusses earnings management presented as a dependent variable or as an affected variable in an empirical study. Based on the 30 previous international studies, 20 studies investigated earnings management as the dependent variable. Figure 1 describes variables associated with earnings management.There are three categories in accounting theory which is believed to influence earnings management. Studies in this group of papers are categorized as related to Positive Accounting Theory (PAT), corporate governance, accounting standards, and there are three study that exclude from the theories and categorized as other variables which affected earnings management.

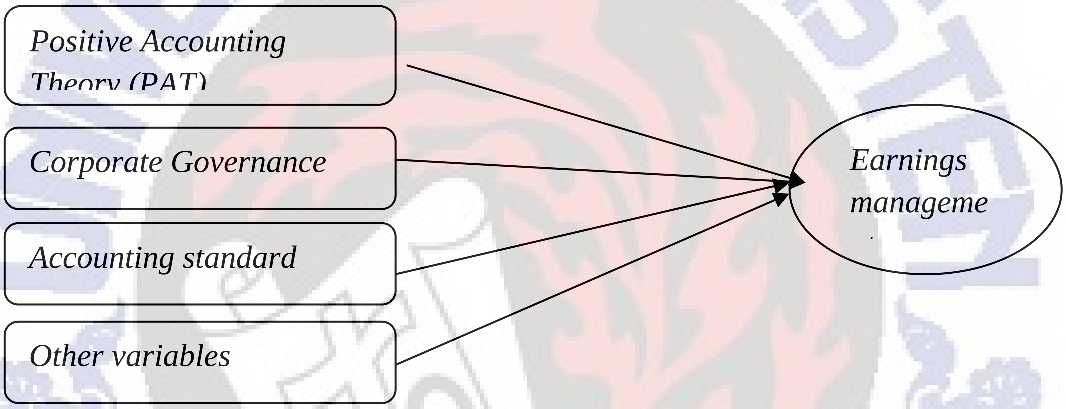

Figure 1. Conceptual framework of affecting variable on earnings management

Positive Accounting Theory (PAT)

According to the Watt & Zimmerman (1986), the aim of accounting theory is to explain and predict accounting practices. The explanation should describe the reason why a practice happens, and the prediction should be able to predict accounting practices phenomenon in the future. Further, Watt & Zimmerman (1986) formulated three hypothesis in an opportunistic form which consists: Plan bonus hypothesis, debt convenient hypothesis, and politic cost hypothesis. Based on that hypothesis, Anis dan Imam (2003) concluded that Positive Accounting Theory (PAT) recognized the relationship between management and the owner. In here politic cost hypothesis, explaining that large scale company tends to lower their profit to reduce the degree of visibility, is associated with earnings management. This concept was suitable with data in Appendix 1, Key (1997) revealed that political cost negatively related to earnings management in the cable television industry during periods of Congressional scrutiny. Earnings management was measured using discretionary accruals by Jones model 1991, and the result showed that managers attempt to mitigate earnings by reducing net income. Another association arises suitable with plan bonus hypothesis, explaining selected method by the manager to maximize their profit, affects earnings management.In Appendix 2, Pourciau (1992) revealed that incoming executive tends to do earnings management by decreasing earnings in the year of the executive change and increasing earnings in the following year. By using random walk model, the result showed that incoming executives manage did earnings management when the turnover of the structure position in routine or non-routine executive changed on a company. In simply, earnings management was negatively affected by the affecting variable arise due Positive Accounting Theory (PAT).

Corporate Governance

Corporate governance, arising as the impact of three hypothesis in the Positive Accounting Theory (PAT) that believed to change manager action in preparing financial reporting, was believed as the controller to supervise managers activity to protect the owner. Corporate governance is the process to increase the success of the business and corporate accountability in order to realize the value stakeholder capital. Sample proved that most of theinvestigated previous study consider the effect of corporate governance as affecting variable on earnings management. In Appendix 3, Chtourou, Bedard, and Courteau (2001) investigated whether a company with corporate governance practices has an effect on the quality of publicly released financial information. In this research, earnings management, measured on discretionary accruals using a cross-sectional version of the Jones 1991 model, was negatively associated with corporate governance component member including audit committee and boards of directors. In another word, this research made a statement that a larger proportion of outside member audit committee and board of directors whose have experience with other firm did earnings management. Similarly, Klein (2002) in Appendix 4 examined whether corporate governance on the term audit committee and board characteristics related to earnings management. Using a cross-sectional Jones regression model to measure discretionary accruals, the finding showed that independence boards and theaudit committee have anegative relation to earnings management. In addition, the evidence found that reductions in board or audit committee independence are accompanied by substantial increases in abnormal accruals. Another study in Appendix 5, using modified Jones model, Peasnell, Pope and Young (2000) stated that board directors met earnings management to avoid earnings losses on the pre- and post-Cadbury periods. Further, in Appendix 6, Cornett, McNutt and Thehranian (2009) revealed that earnings, board independence, and capital are negatively related to earnings management. Using fixed-effect OLS regression method, the finding showed that corporate governance and earnings management are constantly associated.

For a local context, in Appendix 7, Nugroho and Eko (2010) reviewed the effect of corporate governance on the term of board characteristics on earnings management in companies listed on the Indonesian Stock Exchange during 2004-2008. Using Jones model(1991) to measure earnings management, It is discovered that dual leadership/CEO duality have negatively affect earnings management. That study is supported by another study in appendix 8, Murhadi (2009) found out only two variables on corporate governance that have asignificant effect on earnings management which is CEO Duality and controlling shareholder existence.

Contrast with theprevious study, on appendix 9, Carcello, Hollingsworth and Klein (2006), Appendix 9, stated that there was a positive association between financial expertise to mitigate earnings management. By using the modified jones model with discretionary accruals, the result showed that the independent audit committee members with financial expertise are most effective in mitigating earnings management. Alzoubi and Selamat (2012), Appendix 10, using thequalitative method, stated that the company with striking characteristics of board directors (more members, individualindependence, and more financial expertise) and audit committee (smaller in size, have more independent directors, meet more frequently) have less possibility to do earnings management. Liu and Lul (2007), Appendix 11, discussed earnings management as a dependent variable influenced by corporate governance on the Chinese listed company during 1999 – 2005 period. By introducing tunneling perspective, the results showed that higher corporate governance levels have alower level of earnings management. Using Jones model 1991, the findings explained that corporate governance on tunneling has negatively affect earnings management practices. Swastika (2013), Appendix 12, examined the impact of corporate governance (board of director, audit quality, and board independence corporate performance (firm size) on the earnings management. By using the multiple regression and Jones model with discretionary accruals to measure earnings management, the results showed that companies with good governance were positively associated with earnings management. In line with Swastika, Shen, and Chih (2007), Appendix 13, revealed that companies with good corporate governance tend to conduct fewer earnings management. They stated the corporate governance could mitigate the effect of earnings management such a size effect, leverage effect and reverse effect. Finally, Cornetta, Marcusb, and Tehraninanb (2007), Appendix 14, revealed that institutional ownership of shares could decrease the level of earnings management practices. By using modified Jones model, the finding showed that the presence impact of board directors and independent outside director could reduce earnings management.

In conclusion, there were 12 studies regarded corporate governance as affecting variable due to earnings management. Then, it can be concluded that the presence impact of theaudit committee, boards of directors, independence boards, dual leadership/CEO on corporate governance negatively affect earnings management. However, samples found that the presence impact of financial expertise and the effective characteristics of corporate governance can mitigate earnings management. Therefore, it can be concluded that earnings management was affected by the affecting variable arise due to corporate governance. Corporate governancehasboth negative and positive association with earnings management, as theindependent variable.

Accounting Standards

Ghoncharoyand Zimmerman (2009), accounting standards provide different accounting choices to result in thedifferent quality of earnings. Companies have choices of accounting method based on accounting standards. Ghoncharov and Zimmermann (2009), Appendix 15, stated that selected accounting standards, using German GAAP, IAS, or US GAAP, will result in adifferent level of earnings management. This finding showed that accounting standards have role play on the earnings management.Furthermore, using Jones model 1991, Jeanjean and Stowlowy (2008), Appendix 16, revealed that the existence of IFRS does not give positive effect to earnings management. She stated that earnings management increased after the introduction of IFRS in France. These findings show that accounting standards do not positively affect earnings management. Then in contrast, by using regression method Jones model 1991, Chai, Rahman and Courtenay (2008), in appendix 17, stated that IFRS positively affect earnings management proved with decreasing number of earnings management by IFRS-adopting countries. Based on that sample, it can be concluded that selected accounting standards does not always negatively affect earnings management. The other fact proved that IFRS could positively mitigate earnings management practices.

Other Variables

Although, earnings management was affected by the three variables above, in fact, another variable that is not related to the above three theories also affects earnings management. Patricia, Sloan, and Sweeney (1995), Appendix 18, investigated association model for detecting earnings management. By comparing discretionary accruals, he stated that earnings management model has negatively affected to earnings management. Further, McNichols (2000), Appendix 19, by using Jones model, stated that research design used in earnings management negatively associated with earnings management. Using Jones model 1991, Teoh, Welch, and Wong (1997), Appendix 20, revealed that underperformed seasoned equity offerings negatively related to earnings management. Especially, it happened when earnings management occurred prior toan offering year, peaked in the offering year and declined thereafter. Based on the followed discussion, it can be concluded the selected earnings management method, earnings management research design and underperformed seasoned equity positively affect earnings management.

B. Earnings Management An Independent Variable

This section discusses earnings management as an independent variable to affect other variables. From 30 studies, 10 studies were considered earnings management as an independent variable. Accordingly, the variables are grouped based the several categories which describe in Figure 2. There are four categories of accounting theory which believed to impact affected variable on earnings management. Positive Accounting Theory (PAT), financial activity, firm performance and corporate governance.

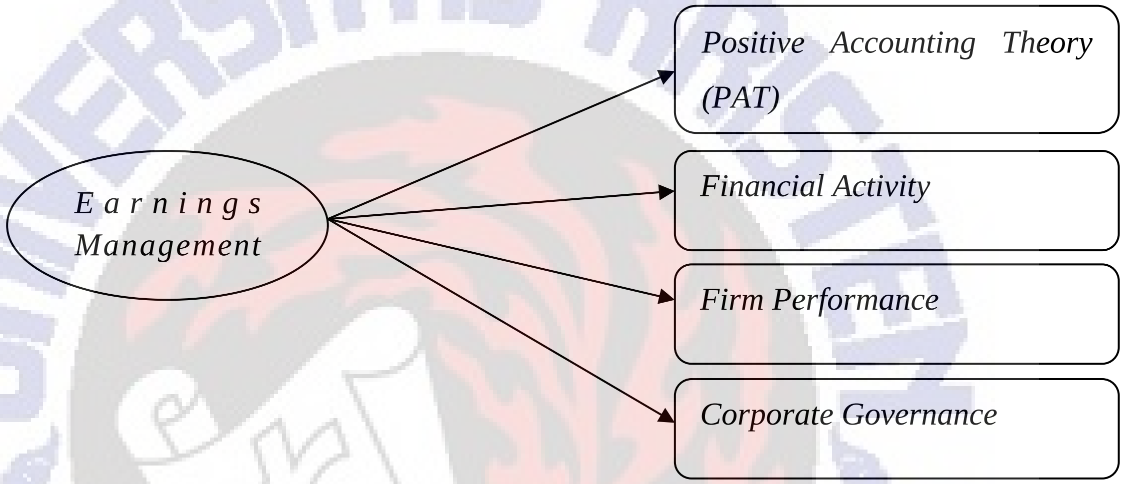

Figure 2. Conceptual framework of affected variable on earnings management

Positive Accounting Theory (PAT)

Different with the previous discussion, in here earnings management as an affecting variable was believed to affect a variable that arise due existence of positive Accounting Theory (PAT). Although earnings management can be both if side as a dependent and as an independent variable, Positive Acoounting Theory (PAT) was believed as the theory that has strong relationship with earnings management.According to Watt & Zimmerman (1986), bonus plan hypothesis theory, one of three hypothesis theory on Positive Accounting Theory, explained that managers tend to choose accounting method that will let them arrange their earnings to maximize their bonus. This theory is suitable with the finding in appendix 21, Bergstressera and Phillopon (2004), stated that earnings management give impact to the CEO's potential total compensation practices. This finding indicated that managers tend to do earnings management to raise their bonus. The previous discussion is relating earnings management as dependent variable, the difference in here earnings management as an independent variable

Financial Activity

Financial activity is any transactions or initiatives undertaken by a business to further the fulfillment of economic goals. Financial activities might include buying and selling of products or assets, organizing and maintaining accounts, issuing stocks or bonds, arranging loans, or other business activities with specific commercial objectives. Financial activities involve long-term liabilities, stockholders' equity (or owner's equity), and changes to short-term borrowings. Based on the sample earnings management affect financial activities on the term financing and investing activities. Using Jones model, Perrya and Williams (1994), Appendix 22, revealed that earnings management negatively impact management participated (or bid to participate) in the buyout of going-private companies. Haider (2012), Appendix 23, examined whether is there any impact of earnings management on dividend policy in Pakistan. By using modified cross-sectional model (1995) to measure discretionary accruals, he found that there was no relationship between earnings management and dividend policy. This study reported that earnings management does not affect dividend policy. Based on the sample, it can be concluded that earnings management affect financing activity, but earnings management does not affect investing activity.

Firm Performance

According to Daft (2010), firm performance is the ability of thevaluable company to achieve its goals by using resources efficiently and effectively. Firm performance can be measured using two indicators of financial and non-financial (Rasula,Vuksic, and Stemberger, 2012). Based on the explanation, it can be said that every company tends to display good financial and non-financial performance. Earnings management is considered to affect dependent variables that arise due tofinancial indicator measurement in firm performance.Cohen and Zarowin (2010),

Appendix 24, by using the Heckman (1979) method, stated that earnings management affects on the company's choices of seasoned equity offerings (SEOs) operating underperforming.Roychowdhury (2006), Appendix 25, said that earnings management has animpact on the real activity manipulation. By using Cross-sectional regression method, the finding showed that managers did earnings management through manipulating real activities to avoid reporting annual losses. Further, Gill, Biger, and Mathur (2013), Appendix 26, by using a co-relational research design, stated that earnings management has aneffect on thecorporate rate of return on assets in the following year. They found that more intense the practice of earnings management, the greater it's adverse effect on thecorporate rate of return on assets in next year. Gunny (2005), Appendix 27, stated that earnings management has anegative effect on company future operating performance. By using modified Jones model, this finding revealed that the managers could do earnings management by recognizing the future earnings implications of the investment in SG&A and cutting prices and/or overproducing to increase current period income. Finally, Burgstahler and Dichev (1997), Appendix 28, stated that earnings management affect the company to manage reported earnings to avoid decreases and losses. Based on the sample, it can be concluded that earnings management influences dependent variables that arise due tofinancial indicator measurement in firm performance.

Corporate Governance

Different with the previous discussion, the fourth category is associating earnings management as an independent variable to affect corporate governance. Earnings management is discussed in relation to the principle of Good Corporate Governance that had been recommended by Komite Nasional Kebijakan Corporate Governance (KNKCG) on 1999. The principle consists Transparency, Accountability, Responsibility, Independency and Fairness (TARIF) as a tool to apply Good Corporate Governance (GCG). Consistent with corporate governance principles on the term of transparency.Kazmik (1996), Appendix 29, examined the role of accounting discretion in mitigating management earnings forecast errors. By using an accrual expectation model (a modified version of the model employed by

Jones 1991), this study found that earnings management practice influenced how far management voluntarily disclosed information about the companies. This lead to a conclusion that earnings management tend to affect corporate governance practice to operate their principle. In another side, the principle of corporate governance also has apurposeof protecting the investor based on agency theory. Leuz, Nanda, and Wyscoki (2003), Appendix 30, by using the regression Jones model, the results showed that earnings management is expected to decrease investor protection. Based on the two studies, it can be confirmed that earnings management as an independent variable negatively affect theprinciple of corporate governance and positively influence theprinciple of corporate governance.

CONCLUSION

This study aims to provide a map of variables related earnings management as an dependent variable and an independent variable based on previous studies. This study utilized purposive sampling method during the 1992 – 2013 period on Google Scholar, followed by a review of 30 previous studies concerning earnings management. The used method in this study is grouping the study become two parts: earnings management was considered as a dependent variable and earnings management was considered as an independent variable. There are 20 previous studies were considered earnings management as an afected variable. There are three categories in accounting theory which is believed to associate with earnings management which are Positive Accounting Theory (PAT), corporate governance, accounting standards.Based on the discussion, when earnings management was considered as dependent variable, most of the previous study relating with variable that arises due to corporate governance. The existence of corporate governance does give not onlyadverse effect on earnings management but also give positive effect by controlling earnings management practices.

There are 10 previous studies were considered earnings management as an affecting variable. There are four categories in accounting theory which is believed to be influenced by earnings management related to Positive Accounting Theory (PAT),financial activity, firm performance and corporate governance. Then when earnings management was considered as an independent variable, most of the previous study relating variable that arise due to financial indicatormeasurement in firm performance.In general, this study concluded that earnings management which considered as a dependent variable or an independent, both of side, must be relationship withvariable that arisesdue tocorporate governance and Positive Accounting Theory (PAT).

This study is limited to the subjectivity in choosing the sample of earnings management study. The future study is suggested to examine beyond one perspective to consider earnings management as a dependent variable or as an independent variable. This study contribute to improve the understanding of earnings management for accounting scholar.This study contribute to improve the understanding of earnings management for accounting scholar

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Journal Summary

Appendix 1

Title	Political cost incentives for earnings management in the cable television industry
Author	Kimberly Galligan Key
Purpose	Examines the role of accounting information in the political process surrounding regulation of the cable television (TV) industry.
Year Published	1 April 1997
Sourced/Origin (Country)	Department of Accountancy and Business Law, University of North Carolina, Wilmington, Wilmington, NC 28403, USA
Independent Variable	Political cost incentives
Dependent Variable	Earnings management
Sample	Cable TV Financial Databook (Databook)
Method	Earnings management is measured using discretionary accruals, and data are consistent with managerial incentives to mitigate the effects of political scrutiny and potential industry reregulation
Findings	Political costs theory states that to the extent a firm is subject to potential wealth transfers in the political process, its management is hypothesized to make accounting choices that reduce the transfer. The cable TV industry has several factors that distinguish this study from previous, related studies and that make this study a strong test of political costs theory.
Keywords	Political process; Earnings management; Accruals JEL classification: M4, L20

Appendix 2

Title	Earnings management and nonroutine executive changes
Author	Susan Pourciau
Purpose	Examines evidence of earnings management associated with nonroutine executive changes.
Year Published	March 1992
Sourced/Origin (Country)	Journal of Accounting and Economics 16 (1993) 317-336. North-Holland, Florida state University
Independent Variable	Nonroutine executive changes
Dependent Variable	Earnings management
Sample	73 firms are changing top executives over the period 1985-1988.

Method	Total accrual measurement
Findings	The empirical evidence is consistent with the hypothesis that incoming executives manage accruals in a way that decreases earnings in the year of the executive change and increases earnings the following year. Further. incoming executives record large write-offs and special items the year of the management change. Contrary to expectation, departing executives record accruals and writeoffs that decrease earnings during their last year of tenure. Several possible reasons for this result are suggested.
Keywords	-

Appendix 3

Title	Corporate Governance and earnings Management
Author	Sonda Marrkchi Chtourou, Jean Bedard, Lucie Courteau
Research Purpose	Examine the the effect of best governance practices by boards of directors and audit committee on thepractice of earnings management through discretionary accruals.
Year Published	April 2001
Sourced/Origin (Country)	University Laval, Canada
Independent Variable	Corporate Governance
Dependent Variable	Earnings Management
Sample	Using 300 US firms formed of two groups of US firms, one relatively high and one with relatively low levels of discretionary accruals in 1996.
Method	Logistic regression model, Jones model 1991
Findings	For audit committees, income increasing earnings management in negatively associated with a larger proportion of outside members who are not managers in another firm, a clear mandate or overseeing both the financial statements and the external audit, and a committee compose only of independent directors that meet more than twice a year. Also, find the short term stocks option held by noexecutive committee members are associated with income increasing earnings management.Income decreasing earnings management is negatively associated with the presence of at least a member with financial expertise and a clear mandate for overseeing both the financial statements and the external audit. For the board directors, we find less income increasing earnings management in firms whose outside board members have experience as board members with the firm and with another firm. Also find the larger board , the importance of

	the ownership stakes in the firm held by noexecutive directors, and experienced as board membersseem to reduce income-decreasing earnings management.
Keywords	Corporate Governance,audit committee, earnings Management, Discretionary accruals

Appendix 4

Title	Audit committee, board of director characteristics, and earnings management
Author	April Klein
Purpose	Examines whether audit committee and board characteristics are related to earnings management by the firm
Year Published	2 February 2002
Sourced/Origin (Country)	Stern School of Business, New York University, New York, NY 10012-1118, USA
Independent Variable	Audit committee and board of director characteristics
Dependent Variable	Earnings management
Sample	All firm-years listed on the S&P 500 as of March 31, 1992 and 1993 with annual shareholder meetings between July 1, 1991 and June 30, 1993.
Method	Jones (1991) expected accruals model
Findings	Our findings have several implications. First, they suggest that the current improvement and convergence projects were sensible. US GAAP seem to perform better than preimprovement IAS when institutional factors and economic incentives are the same. Second, the standard setters may consider prolonging the option for European 20 companies cross-listed in the US to use US GAAP for reporting purposes beyond 2007. Finally, third, regulators and markets may consider augmenting IAS reportingrequirements by elements taken from US GAAP.
Keywords	Earnings management; Corporate governance; Audit committee; Board of directors

Appendix 5

Title	Accrual Management To Meet Earnings targets: UK Evidence Pre- and Post-Cadbury
Author	K.V. PEasnell, P.F. Pope, and S. Young
Purpose	Tests whether the association between board composition and earnings management activity differs between the pre- and post-Cadbury periods
Year Published	March 2000

Sourced/Origin (Country)	British Accounting Review (2000) 32, 415–445, Lancaster University
Independent Variable	Board Effectiveness
Dependent Variable	Earnings Management
Sample	Using a sample of UK-incorporated quoted companies for a period spanning the publication of the Cadbury Report (1992)
Method	Aggregate Accounting Accruals model
Findings	Results provide evidence of accrual management to meet earnings targets in both periods. However, while we find no proof of an association between the degree of accrual management and the composition of the board of directors in the pre-Cadbury period, results for the post-Cadbury period indicate less income-increasing accrual management to avoid earnings losses or earnings declines when the proportion of non-executive directors is high. These results are consistent with the view that appropriately structured boards are discharging their financial reporting duties more effectively post-Cadbury.
Keywords	-

Appendix 6

Title	Corporate governance and earnings management at large U.S. bank holding companies
Author	Marcia Millon Cornett , Jamie John McNutt , Hassan Tehranian
Purpose	Examines whether corporate governance mechanisms affect earnings and earnings management at the largest publicly traded bank holding companies in the United States
Year Published	6 May 2009
Sourced/Origin (Country)	Bentley University, Waltham, MA 02452-4705, United States
Independent Variable	Corporate governance
Dependent Variable	Earnings management
Sample	593 bank, the largest bank holding companies (BHCs) headquartered in the United States and operating during 1994 through 2002 period.
Method	OLS regressions
Findings	First find that performance, earnings management, and corporate governance are endogenously determined. Thus, OLS estimation can lead to biased

	coefficients, and a simultaneous equations approach is used.We find that CEO pay-for-performance sensitivity (PPS), board independence, and capital are positively related to earnings and that earnings, board independence, and capital are negatively related to earnings management. We also find that PPS is positively related to earnings management. Finally, PPS and board independence are positively related, and the relationship is bidirectional. While both PPS and board independence are associated with higher earnings, our results indicate that more independent boards appear to constrain the earnings management that greater PPS compels.
Keywords	Corporate governance , Earnings management , Financial performance , Financial institutions

Appendix 7

Title	Board Characteristics and Earnings Management
Author	Bennardus Y Nugroho and Dumantueko
Research Purpose	Estimate the effect of board characteristics(measured based on the independent board of director, dual leadership/CEO duality,board size,managerial ownership,Board composition/ multiple directorships,board tenure,audit committee and board interlock)on earnings management
Year Published	January 2011
Sourced/Origin (Country)	Department of Administration Science, Faculty of Social and Political Science, Universitas Indonesia. Journal of administrative science & organization
Independent Variable	Board characteristics
Dependent Variable	Earnings Management
Sample	Companies listed on the Indonesian Stock Exchange during the 2004-2008 period.
Method	Uses the Jones model (1991) as modified by Dechow and Sloan (1996) to separate nondiscretionary accrual (NDAC) components from discretionary accrual components (DAC) in the total accrual
Findings	Shows that earnings management takes place in companies listed on the Indonesian Stock Exchange during the 2004-2008 period.Companies in general, manufacturers, non-manufacturers, and corporations use audit committee services. It is discovered that the independent board of directors, board size, managerial ownership, board composition/multiple directorships, board tenure, and audit committee do not affect earnings management practices in

	the above companies; only dual leadership/CEO duality affects the earnings management practices.
Keywords	corporate governance, earnings management

Appendix 8

Title	Good Corporate Governance and Earnings Management Practices: An Indonesian Cases
Author	Werner R. Murhadi, Dr
Purpose	Finding out the effect of Good Governance practice can reduce earnings management practice done by thecompany.
Year Published	March 23, 2009
Sourced/Origin (Country)	Faculty of Economics, Universitas Surabaya, Indonesia
Independent Variable	Good Corporate Governance
Dependent Variable	Earnings Management Practices
Sample	384 companies registered in manufacture sector in Indonesia Stock Exchange observation period 2005-2007
Method	OLS method
Findings	The result shows that only two variables have asignificant effect on Earnings Management practice which is CEO Duality and controlling shareholder existence. Other independent variables such as independent commissioner and audit committee and also shareholder coalition outside the controlling shareholder don't have any effect on earnings management practice in the company. Control variable like coverage analyst and debt don't have any effect either, to earnings management practice existence.
Keywords	Good Corporate Governance, Earnings Management, Coverage Analyst, Debt

Appendix 9

Title	Audit Committee Financial Expertise, Competing Corporate Governance Mechanisms, and Earnings Management
Author	Joseph V. Carcello, Carl W. Hollingsworth,April Klein,Terry L. Neal
Purpose	Examine the associations between audit committee financial expertise and alternate corporate governance mechanisms and earnings management.
Year Published	February 2006

Sourced/Origin (Country)	University of Tennessee
Independent Variable	The associations between audit committee financial expertise and alternate corporate governance mechanisms
Dependent Variable	Earnings management
Sample	350 non-financial, domestic firms from Compact D/SEC with fiscal year ends on July 15, 2003, and December 31, 2003,5
Method	Modified Jones Model
Findings	We find that both accounting and certain types of non-accounting financial expertise reduce earnings management for firms with weak alternate corporate governance mechanisms, but that independent audit committee members with financial expertise are most effective in mitigating earnings management. Importantly we find that other corporate governance mechanisms are an effective substitute for audit committee financial expertise in constraining earnings management. Finally, we find either no association or a positive association between financial skills and real earnings management. Our results suggest that alternative governance approaches are equally effective in improving the quality of financial reporting and that firms should have the flexibility to design the particular set of governance mechanisms that best fit their unique situations.
Keywords	-

Appendix 10

Title	The Effectiveness of Corporate Governance Mechanisms on Constraining Earnings Management: Literature Review and Proposed Framework
Author	Ebraheem Saleem Salem Alzoubi, Mohamad Hisyam Selamat
Purpose	Investigates the role of the board of directors and audit committee of earnings management (EM).
Year Published	June 2012 17
Sourced/Origin (Country)	International Journal of Global Business, 5 (1), 17-35
Independent Variable	The Effectiveness of Corporate Governance Mechanisms
Dependent Variable	Earnings Management
Sample	
Method	-
Findings	Evidence from preceding studies suggested that the boards of directors of smaller companieshave more independent

	directors.They were equipped with financial expertise and meet more frequently are effective in their monitoring role. In the same way, audit committees with more members, individual independence, more financial skills and that are more active are suggested to have a higher oversight function. In regard to EM, this paper views EM as opportunistic earnings. The present study argues that the firms with striking characteristics of board and audit committee are less likely to allow EM because opportunistic earning's cause uncertainty about the economic value of a firm.
Keywords	Board of Directors, Audit Committee, Corporate Governance, Earnings Management, Financial Reporting Quality

Appendix 11

Title	Corporate governance and earnings management in the Chinese listed companies: A tunneling perspective
Author	Qiao Liu and Zhou (Joe) Lu1
Purpose	Examines the relation between earnings management and corporate governance in China by introducing a tunneling perspective.
Year Published	2 August 2007
Sourced/Origin (Country)	Faculty of Business and Economics, University of Hong Kong, Pokfulam, Hong Kong
Independent Variable	Corporate Governance
Dependent Variable	Earnings Management
Sample	5977 firm-year observations for 1999–2005, which represent 1009 different listed firms.
Method	Jones model 1991
Findings	Consistent with this hypothesis, the regression results show that earnings management is negatively associated with the quality of minority shareholder rights and legal enforcement. The findings highlight an important link between investor protection and the quality of accounting earnings reported to market participants, and complement both finance research that treats the quality of corporate reporting as exogenous and accounting research that documents systematic patterns in the relation between stock returns and accounting numbers. Our findings are robust to the inclusion of controls for country wealth, economic heterogeneity across countries, and international differences in accounting rules and ownership concentration.
Keywords	Agency problems; Earnings management; Tunneling; Corporate governance

Appendix 12

Title	Corporate Governance, Firm Size, and Earnings Management: Evidence in Indonesia Stock Exchange
Author	Dwi Lusi Tyasing Swastika
Purpose	Evaluate the impact of the corporate governance regulation implementation and firm size on the earnings management for food and beverages companies in Indonesian Stock Exchange.
Year Published	2005
Sourced/Origin (Country)	IOSR Journal of Business and Management (IOSR-JBM) e-ISSN: 2278-487X, p-ISSN: 2319-7668. Volume 10, Issue 4 (May. - Jun. 2013), PP 77-82 STIE Malangkuçeçwara, Malang
Independent Variable	Corporate Governance, Firm Size,
Dependent Variable	Earnings Management
Sample	Using data from the year 2005 annual reports of 51 food and beverages listed companies,including the composite index
Method	The multiple regression is utilized to test this relationship at 95% confidence.Corporate governance was proxied by theboard of director, audit quality, and board independence. Firm size was represented by thenatural logarithm of total assets. Earnings management was measured by Jones model withdiscretionary accruals.
Findings	We empirically show that Chinese listed companies' earnings managementis significantly related to the main aspects of their corporate governance. Good corporate governance mitigates agency problems, especially agency conflicts between the largest shareholders and the minority shareholders, which often takes the form of tunneling in the Chinese context. We then study two China-specific situations, in which earnings management has been identified to be the most conspicuous. For each of them, we document listed firms' incentives to manage earnings and relate these incentives to controlling shareholders' tunneling activities. Specifically, we manage to estimate the size of private control benefits that controlling shareholders are able to extract, and find that they are related to listed firms' earnings management. Such findings explain why listed firms in China have strong incentives to manage earnings when facing a de-listing risk. We also document the mis-allocation of raised capital by controlling shareholders in cases of rights issues. Although our results suggest that earnings management in the Chinese listed companies is

	largely due to tunneling, they should be interpreted cautiously..
Keywords	Corporate governance, Firm size, Earnings Management

Appendix 13

Title	Earnings Management and Corporate Governance in Asia'sEmerging Markets
Author	Chung-Hua Shen and Hsiang-Lin Chih
Research Purpose	To study how corporate governance affects EM of Asian countries by using firm-level data.
Year Published	2007
Sourced/Origin (Country)	Journal compilation 2007 Blackwell Publishing Ltd, 9600 Garsington Road,Oxford, OX42DQ,UK and 350 main St, Malden MA, USA
Independent Variable	Corporate Governance
Dependent Variable	Earnings Management
Sample	Use firm-level governance data, taken from Credit Lyonnais Security Asia (CLSA), of nine Asian countries, in addition to the country-level governance data used in past studies
Method	Regression method
Findings	First, firms with good corporate governance tend to conduct fewer earnings management. Second, there is a size effect for earnings smoothing, that is, large size firms are prone to conduct earnings smoothing, but good corporate governance can mitigate the effect on average. Third, there is a turning point for leverage effect, i.e. when the governance index is large, leverage effect exists. Otherwise,reverse leverage effect exists. It shows that a highly leveraged firm with poor governance is prone to be scrutinized closely and thus finds it harder to fool the market by manipulating earnings. Fourth, companies with higher growth (lower earnings yield) are prone to engage in earnings smoothing and earnings aggressiveness, but good corporate governance can mitigate the effect. Finally, firms in stronger anti-director rights countries tend to exhibit stronger earnings smoothing. This counter-intuitive result is different from Leuz et al.
Keywords	Corporate governance, earnings management, investor protection, emerging markets

Appendix 14

Title	Corporate governance and pay-for-performance: The impact of earnings management

Author	Marcia Millon Cornetta, Alan J. Marcusb, Hassan Tehranian,
Purpose	Ask whether the apparent impact of governance structure and incentive-based compensation on firm performance stands up when measured performance is adjusted for the effects of earnings management
Year Published	2 March 2007
Sourced/Origin (Country)	Journal of Financial Economics 87 (2008) 357–373 aSouthern Illinois University, Carbondale, IL, 62901, USA
Independent Variable	Corporate governance and pay-for-performance
Dependent Variable	Earnings management
Sample	Firms included in the S&P 100 Index (obtained from Standard & Poor's) as of the start of 1994.
Method	Discretionary accruals
Findings	Results provide evidence of accrual management to meet earnings targets in *both* the pre- and post-Cadbury periods. Perhaps unsurprisingly, these results suggest that the recent changes in the UK governance system have failed to completely eliminate earnings management activity. In contrast, we find no evidence of an association between the degree of accrual management and the proportion of non-executive directors in the pre-Cadbury period.These results confirm those reported by Peasnell *et al*. (1999a) and support the view that the board's effectiveness at monitoring management is a positive function of the proportion of non-executive members. Secondly,our results suggest that appropriately structured boards are discharging their financial reporting duties more effectively following the issuance of the Cadbury Report. As such, these findings are consistent with the view that the publication of the Cadbury Report has had a material impact on the way in which UK boards operate.
Keywords	Corporate governance; Earnings management; Financial performance; Stock options

Appendix 15

Title	Do Accounting Standards influence the Level of Earnings Management? Evidence from Germany
Author	Igor Goncharov and Jochen Zimmermann
Research Purpose	Analyses whether the level of earnings management differs between the standards
Year Published	2009
Sourced/Origin (Country)	Amsterdam Business school, Netherlands

Independent Variable	Accounting Standards
Dependent Variable	Earnings Management
Sample	German companies listed in the year 2000 in DAX 30, MDAX and NEMAX 50 indexes period are years 1996 to 2002.
Method	Modified Jones model
Findings	Evidence consistent with the hypothesis of earnings management is found. A careful comparison of this study and the DeAngelo (1986) study suggests that the principal difference is due to the sample, not the methods. We examine the financial health of the firms prior to the management buyout, and find no indication that the negative accruals are due to a pattern of declining performance. Partitioning the sample by debt level, level of institutional ownership, and exchange listing fail to indicate any systematic constraints on the ability of managers to reduce earnings in the year preceding a management buyout. A disaggregation of the total accruals into the depreciation expense component and the change in noncash working capital component reveals evidence of earnings management in both components. While a finer partition may be more discriminating, at this stage we conclude that earnings management is implemented through a composite strategy of accounting policy choices. Earnings management is of interest because it concerns the potential illegal or unethical transfers of wealth. Many individuals, including former SEC commissioner Bevis Longstreth (1984), have expressed deep concern about the conflict of interest managers face in these types of transactions.
Keywords	Earnings management, reporting incentives, international accounting standards.

Appendix 16

Title	Do accounting standards matter? An exploratory analysis of earnings management before and after IFRS adoption
Author	Thomas Jeanjean, Hervé Stolowy
Purpose	Analyze the effect of the mandatory introduction of IFRS standards on earnings quality, and more precisely on earnings management.
Year Published	2008
Sourced/Origin (Country)	HEC Paris, 1, rue de la Libération, 78351-Jouy-en-Josas, France
Independent Variable	The mandatory introduction of IFRS standards

Dependent Variable	Earnings management
Sample	We concentrate on three IFRS first-time adopter countries, namely Australia, France, and the UK. comprises 1146 firms (5051 firm-year observations): 422 (1933) for Australia, 321 (1316) for France and 403 (1802) for the UK.
Method	Statistical properties of earnings to identify thresholds
Findings	Find that the pervasiveness of earnings management did not decline after the introduction of IFRS, and in fact increased in France. Our results confirm that sharing rules is not a sufficient condition to create a common business language and that management incentives and national institutional factors play a major role in framing financial reporting characteristics. We suggest that the IASB, the SEC and the European Commission should now devote their efforts to harmonizing incentives and institutional factors rather than harmonizing accounting standards.
keywords	IFRS, Earnings management, Thresholds

Appendix 17

Title	The Effect of IFRS and its Enforcement on Earnings Management An International Company
Author	Lei Cai, Asheq Rahman, Stephen Courtenay
Purpose	Examine the effect of IFRS adoption and its enforcement on earnings management
Year Published	December 2008
Sourced/Origin (Country)	School of Accountancy , Massey University ,New Zealand
Independent Variable	IFRS Enforcement
Dependent Variable	Earnings Management
Sample	Over 100,000 firm-year observations from 2000 to 2006 across 32 countries
Method	Using a modified measure of enforcement developed by Hope (2003). Use Autoregressions on time-series data for the cross-country comparison
Findings	Earnings management in IFRS adoption countries has been decreasing in recent years and showed that countries with stronger enforcement generally have fewer earnings management.
Keywords	-

Appendix 18

Title	Detecting Earnings Management
Author	Patricia M. Dechow Richard G. Sloan , Amy P Sweeney
Purpose	Evaluates alternative accrual-based models for detecting earnings management
Year Published	April 1995
Sourced/Origin (Country)	The accounting Review Vol. 70, No. 2
Independent Variable	Models for detecting earnings management
Dependent Variable	Earnings Management
Sample	Compustat industrial files with the necessary data between 1950 and 1991. The 1000 firm-years are selected in a sequential fashion and without replacement. A firm-year is
Method	Discretionary accruals
Findings	First, all of the models appear well specified when applied to a random sample of firm-years. Second, the models all generate tests of low power for earnings management of economically plausible magnitudes (e.g., one to five percent of total assets). Third, all models reject the null hypothesis of no earnings management at rates exceeding the specified testlevels when applied to samples of firms with extreme financial performance. This result highlights the importance of controlling for financial performance when investigating earnings management stimuli that are correlated with financial performance. Finally, a modified version of the model developed by Jones (1991) exhibits the most power in detecting earnings management.
Keywords	Earnings management, Discretionary accruals, Models selection, SEC.

Appendix 19

Title	Research design issues in earnings management studies
Author	Maureen F. McNichols
Purpose	discusses trade-o€s associated with three research designs commonly used in the earnings management literature: those based on aggregate accruals, those based on special®c accruals and those based on the distribution of earnings after management
Year Published	2000
Sourced/Origin (Country)	Department of Accounting, Graduate School of Business, Stanford University, Stanford, CA 94305, USA
Independent Variable	Research design issues

Dependent Variable	Earnings Management
Sample	Descriptive data on journal articles on earnings management
Method	Comparing the research design on earnings management
Findings	Empirical findings suggest that aggregate accruals models that do not consider long-term earnings growth are potentially misspecified and can result in misleading inferences about earnings management behavior. It is suggested that future progress in the earnings management literature is more likely to come from theapplication of appropriate®c accrual and distribution-based tests than from aggregate accruals tests.
Keywords	-

Appendix 20

Title	Earnings management and the underperformance of seasoned equity offerings
Author	Siew Hong Teoh, Ivo Welch, T.J. Wong
Purpose	Examine whether unusually aggressive management of earnings through income-increasing accounting adjustments leads investors to be overly optimistic about the issuerÕs prospects.
Year Published	26 June 1997
Sourced/Origin (Country)	Journal of Financial Economics 50 (1998) 63Ð99 . University of Michigan Business School, Ann Arbor, MI 48109, USA
Independent Variable	The underperformance of seasoned equity offerings
Dependent Variable	Earnings management
Sample	1265 report for seasoned equity issues between January 1970 and September 1989 from the Securities Data Corporation.
Method	Discretionary accruals
Findings	We find that issuers who adjust current discretionary accruals to report higher net income prior to the o¤ering have lower post-issue long-run abnormal stock returns and net income. Interestingly, the relation between current discretionary accruals and future returns (adjusted for Þrm size and book-to-market ratio) is stronger and more persistent for seasoned equity issuers than for non-issuers. The evidence is consistent with investors naively extrapolating pre-issue earnings without fully adjusting for the potential manipulation of reported earnings.

Keywords	Corporate Þnance; Seasoned equity o¤erings; Earnings management; Accounting accruals; Anomalies; Market efficiency

Appendix 21

Title	CEO incentives and earnings management
Author	Daniel Bergstresser , Thomas Philippon
Purpose	Examine cross-sectional data from the 1990s to assess whether the increasing use of accruals is related to the increase in stock-based CEO compensation.
Year Published	22 December 2005
Sourced/Origin (Country)	Harvard Business School, Boston MA 02163,USA
Independent Variable	Earnings Management
Dependent Variable	CEO incentives
Sample	Accruals, CEO incentives, and CEO option exercises and share sales
Method	Modified Jones model
Findings	Provide evidence that the use of discretionary accruals to manipulate reported earnings is more pronounced at firms where the CEO's potential total compensation is more closely tied to the value of stock and option holdings. In addition, during years of high accruals, CEOs exercise scores of choices and CEOs unusually, and other insiders sell large quantities of shares.
Keywords	Earnings management, Stock options, CEO compensation

Appendix 22

Title	Earnings management preceding management buyout offers
Author	Susan E. Perrya, Thomas H. Williams
Purpose	Examine the financial health of the firms prior to the management buyout,
Year Published	March 1994
Sourced/Origin (Country)	School of Commerce. University of Virginia, Charlottesville, VA 22903-2493, USA bSchool of Business, University of Wisconsin, Madison, WI 53706, USA. Journal ofAccounting and Economies 18
Independent Variable	Earnings Management
Dependent Variable	Management buyout offers

Sample	175 management buyouts during 1981-88
Method	aggregate accruals model
Findings	Evidence from preceding studies suggested that the boards of directors who are smaller in size, have more independent directors, are equipped with financial expertise and meet more frequently are effective in their monitoring role. In the same way, audit committees with more members, sole independence, more financial expertise and that are more active are suggested to have a higher oversight function. In regard to EM, this paper views EM as opportunistic earnings. This study argues that the firms with effective characteristics of board and audit committee are less likely to allow EM because opportunistic earning's cause uncertainty about the economic value of a firmThe initial study on the conceptual framework, which is to examine the link between corporate practices and the FRQ, has led to further studies on the two mechanisms of corporate practices, which are known to be important attributes to the FRQ.
Keywords	Contracting; Earnings management; Accruals; Management buyouts

Appendix 23

Title	Earnings Management and Dividend Policy: Empirical evidence from Pakistani listed companies
Author	Jahanzaib Haider
Purpose	Find out the impact of earnings management on dividend policy in Pakistan
Year Published	2012
Sourced/Origin (Country)	Bahaudin Zakariya University, Multan Sub-Campus, Dera Ghazi Khan, Pakistan
Independent Variable	Earnings Management
Dependent Variable	Dividend Policy
Sample	A set of listed companies from Karachi stock exchange (KSE) 100 indexes have been investigated to analyze the relationship from the year 2005 to 2009 in Pakistan
Method	Modified cross-sectional model (1995) has been used to measure discretionary accruals
Findings	Regression analysis shows that earnings management has animpact on dividend policy that rejects our null hypothesis. But coefficient indicates that the relationship is so weak that is near to no connection. The reason behind this no impact is economic decline period because earnings management changes every year. In the decline period, our earnings management was increase, and the companies starts downsizing divided payment

Keywords	Dividend Policy, Earnings Management, Karachi Stock Exchange

Appendix 24

Title	Accrual-based and real earnings management activities around seasoned equity offerings
Author	Daniel A.Cohen , PaulZarowin
Purpose	we examine both real and accrual-based earnings management activities around seasoned equity offerings (SEOs).
Year Published	2 February 2010
Sourced/Origin (Country)	New York University, Stern School of Business, NY 10012-1118, USA
Independent Variable	Accrual-based and real earnings management activities
Dependent Variable	Seasoned equity offerings
Sample	Consists of 1511 completed US offers over the 1987 to 2006 period and is obtained from thecSecurities Data Company (SDC) New Issue database.
Method	Jones (1991) model
Findings	Shows that post-SEO operating underperformance is driven not just by accrual reversals, but also reflects the real consequences of operational decisions made to manage earnings. We also show how firms' choices of real versus accrual-based earnings management activities around SEOs vary predictably as a function of the company's ability to use accrual management and the costs of doing so.
Keywords	Seasoned equity offerings Earnings management Accounting choices Accounting Accruals Real activities

Appendix 25

Title	Earnings management through real activities manipulation
Author	Sugata Roychowdhury
Purpose	To develop empirical methods to detect real activities manipulation
Year Published	2006
Sourced/Origin (Country)	Sloan School of Management, Massachusetts Institute of Technology, Cambridge, MA 02142, USA
Independent Variable	Earnings management
Dependent Variable	Real activities manipulation
Sample	All firms in COMPUSTAT between 1987 and 2001
Method	Cross-sectional regression

Findings	Find evidence consistent with managers manipulating real activities to avoid reporting annual losses. Specifically, I find evidence suggesting price discounts to temporarily increase sales, overproduction to report the9lower cost of goods sold, and reduction of discretionary expe94ditures to improve reported margins. The cross-sectional analysis reveals that these activities are less prevalent in the presence of sophisticated investors. Other factors that influence real activities manipulation include industry membership, the stock of inventories and receivables, and incentives to meet zero earnings. There is also some, though less robust, evidence of real activities manipulation to meet annual analyst forecasts.
Keywords	Capital markets; Accounting choice; Earnings manipulation

Appendix 26

Title	Earnings Management, Firm Performance, and the Value of Indian Manufacturing Firms
Author	Amarjit Gill, Nahum Biger, Harvinder S. Mand, Neil Mathur
Research Purpose	To test whether the practice of earnings management that affects and perhaps benefits management of Indian companies has an effect on a firms' performance and whether earnings management has an effect on other stakeholders
Year Published	November 2013
Sourced/Origin (Country)	International Research Journal of Finance and Economics. ISSN 1450-2887 Issue 116
Independent Variable	Earnings Management
Dependent Variable	Return on Assets (Firm Performance)
Sample	250 firms were selected from Top 500 Companies listed on the Bombay Stock Exchange (BSE) for a period of 4 years (from 2009-2012).
Method	co-relational research design (the weighted least square regression model with a cross section weight of three industries which are consumer products manufacturing, industrials products manufacturing, and energy production was used)
Findings	The results of this study indicate that the more intense the practice of earnings management, the greater it's adverse effect on thecorporate rate of return on assets in the following year. The study also found that to some extent, the market realizes that management acts with selfish

	motives and response by lowering share prices and corporate market value.
Keywords	Earnings management, Firm performance, Market value of the firm, Shareholders' wealth.

Appendix 27

Title	What Are the Consequences of Real Earnings Management?
Author	Katherine Gunny
Purpose	Examines the consequences of four types of real earnings management
Year Published	January 2005
Sourced/Origin (Country)	Haas School of Business University of California, Berkeley CA 94720
Independent Variable	Earnings Management
Dependent Variable	Future operating performance
Sample	32,402 firm-year observations with required financial statement variables and returns data COMPUSTAT industrial, full-coverage and research files and stock returns and size portfolio returns from 1988 to 2000. CRSP.
Method	Discretionary accruals
Findings	The empirical results are consistent with all four types of real earnings management activities having a significantly negative impact on future operating performance. Additionally, it appears that investors recognize the future earnings implications of myopic investment in SG&A and cutting prices and/or overproducing to increase current period income. The results are inconsistent with investors recognizing the future earnings consequences of amyopic investment in R&D and the strategic timing of asset sales. The results are consistent with analysts recognizing the future earnings implications of all four types of real earnings management.
Keywords	-

Appendix 28

Title	Earnings management to avoid earnings decreases and losses
Author	David Burgstahler , Ilia Dichev
Purpose	Provide extensive systematic evidence about whether, how, and why, firms avoid reporting earnings decreases and losses

Year Published	April 1997
Sourced/Origin (Country)	School o/Business, Box 353200, Universi O' of Washington, Seattle, Washington 98195-3200, USA
Independent Variable	Earnings management
Dependent Variable	Earnings decreases and losses
Sample	Equal-sized portfolios of 1,000 observations per portfolio
Method	
Findings	We find that firms' choices vary predictably as a function of the firm's ability to use accrual management and the costs of doing so. Our model is a first step in examining how firms tradeoff between real versus accrual methods of earnings management. Third, and most important, we examine the effect of each type of earnings management strategy on the firm's post-SEO operating performance. Our evidence implies that the decline in post-SEO operating performance attributable to real activities management is more severe than that attributable to accruals management. This indicates that the post-SEO operating performance decline is driven not just by accrual reversals, as suggested by prior research (Rangan, 1998; Teoh et al., 1998), but also reflects the real consequences of operational decisions made to manage earnings at the time of the SEO. Overall, our findings show the importance of real earnings management activities around a specific corporate finance event, SEOs.
Keywords	Earnings management, Earnings decreases, Losses

Appendix 29

Title	On the Association Between Voluntary Disclosure and Earnings Management
Author	Ron Kazmir
Purpose	Investigate the extent to which voluntary disclosure and earnings forecast related.
Year Published	August 1996
Sourced/Origin (Country)	Business Stanford University. Standford CA9435
Independent Variable	Earnings Management
Dependent Variable	Voluntary Disclosure
Sample	The sample consists of earnings forecasts, attributed to either the firm or one of its officers, that appear on the Nexist News (Wires) filesometime during the period 1987-1991

Method	Using model modifies by jones (1991)
Findings	The empirical results are consistent with the prediction that managers, fearing costly legal actions by shareholders and loss of reputation for credibility, use discretionary accruals to reduce their forecasting errors.Specifically, the paper documents that managers who overestimate the earnings number manage reported earnings upward and that the extent of discretionary accruals is associated with various securities litigation costs factors and the number of management's accounting flexibility. The study raises the possibility that the degree of accounting discretion affects corporate voluntary disclosure policies.
Keywords	-

Appendix 30

Title	Earnings management and investor protection: an international comparison
Author	Christian Leuz, Dhananjay Nanda, and Peter D. Wysocki
Purpose	Examines systematic differences in earnings management across 31 countries. We propose an explanation for these differences based on the notion that insiders, in an attempt to protect their private control benefits, use earnings management to conceal solid performance from outsiders.
Year Published	21 March 2003
Sourced/Origin (Country)	Journal of Financial Economics 69 (2003) 505–527
Independent Variable	Earnings management
Dependent Variable	Investor protection
Sample	the sample consists of 70,955 firm-year observations, across 31 countries and 8,616 non-financial firms for the fiscal years 1990 to 1999
Method	Using cluster analysis
Findings	Findings are consistent with this prediction and suggest an endogenous link between corporate governance and the quality of reported earnings. Thus, earnings management is expected to decrease in investor protection because of strong protection limits insiders' ability to acquire private control benefits, which reduces their incentives to mask firm performance.
Keywords	Corporate governance; Earnings management; Investor protection; Law; Private control benefits